

iSHARES ESG AUSTRALIAN BOND INDEX FUND



FUND UPDATE

31 August 2023

Investment Performance (%)

	1 Mth	3 Mths	YTD	1 Yr	3 Yrs	5 Yrs	Since Incep
iShares ESG Australian Bond Index Fund (Gross of Fees) (Class E)	0.74	-0.70	2.80	1.80	-2.98		0.13
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	0.74	-0.68	2.80	1.81	-2.96		0.12
Outperformance (Gross of Fees)	0.00	-0.02	0.00	-0.01	-0.02		0.01
iShares ESG Australian Bond Index Fund (Net of Fees) (Class D)	0.72	-0.75	2.66	1.60	-3.17		-0.07
Bloomberg Barclays MSCI Australia 100mn ESG weighted SRI Select Index	0.74	-0.68	2.80	1.81	-2.96		0.12
Outperformance (Net of Fees)	-0.02	-0.07	-0.14	-0.21	-0.20		-0.19

Inception date: 1/02/2019

Past performance is not a reliable indicator of future performance. Performance for periods greater than one year is annualised. Performance is calculated in Australian dollars and assumes reinvestment of distributions. Gross performance is calculated gross of ongoing fees and expenses. Net performance is calculated on exit-to-exit price basis, e.g. net of ongoing fees and expenses. Gross returns are provided for products offered to wholesale clients only who may be subject to differential fees. Please refer to the Fund's product disclosure statement for more information.

Performance Summary

Market Review

The Bloomberg MSCI Australia SRI/ESG-Weighted A\$100M Index (the "Index") returned 0.74% in August. Credit (0.97%) was the best performing sub-component, followed by Supranational-Sovereigns (0.86%), Semi-Governments (0.86%) and Treasuries (0.61%).

MSCI has upgraded the ESG score of the McDonald's Corporation from 'BBB' to 'A'. The upgrade reflected improvements in the company's corporate governance practices, which now lead those of most global peers (as of June 2023). Following changes in board composition, McDonald's is no longer flagged for having a potentially entrenched board, or for over boarding and MSCI believe such practices may bolster oversight of management. In addition, as of the 2023 AGM, the company appointed two new women directors, with MSCI noting, the presence of at least 30% women on the board is an important threshold as per ratings their model.

Australian 2-year bond yields decreased 0.14% over the month to 3.79%, and 10-year yields fell 0.03% to 4.03%.

The RBA kept the cash rate unchanged at 4.10%, which was in line with market expectations but against what most economists thought, as 18 of the 30 surveyed were calling for a 25bp hike. Clearly, we have entered the fine-tuning phase of setting monetary policy which most likely means longer pauses as the macro data unfolds and the RBA remains "data dependent". The key issues for the RBA will continue to be the unemployment rate being too low and the speed at which the RBA wants inflation to return to the mid-point of its 2-3% band. The SoMP was also released over the month, where the Bank does not see inflation falling below 3% until December 2025. This explains their current hawkish bias and the possibility more rate rises may still take place.

In Australia data continues to trend well with the wage price index (WPI) for Q2 seeing wages rise 0.8%. This was 0.1% lower than expected and saw the WPI y/y growth rate fall 0.1% to

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3.6%. The CPI y/y print for July saw inflation fall 0.5% to 4.9%. The employment change saw 14,600 jobs lost, vs. a forecast of +15,000 gain. This saw the unemployment rate rise 0.2% to 3.7% as the participation rate dropped 0.1% to 66.7%. The NAB business survey saw business conditions fall 1 point to 10, while business confidence increased 3 points to 2. Consumer sentiment fell with the Westpac survey down 0.4% to 81. Retail sales for July increased by 0.5%, this was 0.2% better than expected. House prices rose as the CoreLogic index increased by 1% in August, which was 0.2% higher than the prior month. Australia's trade balance delivered a A\$11.3bn surplus which was ~A\$250m higher than forecasted.

In the U.S., 2-year treasury yields decreased by 0.01% at 4.86% while the 10-year yield rose 0.15% to 4.11%.

The much-anticipated Jackson Hole Economic Symposium was held this month with the key takeaways from Fed Chair Jerome Powell being, the recommitment to restoring price inflation to the Fed's long-run target and that the Fed will continue until the job is done, stating: "Although inflation has moved down from its peak—it remains too high. We are prepared to raise rates further if appropriate and intend to hold policy at a restrictive level until we are confident that inflation is moving sustainably down toward our objective." The catch is growth has remained more resilient than expected. Backed by a strong labor market and solid finances, consumers have kept the economy out of recession and as a result, even though the economy was expected to contract in the last two quarters of the year, economists have now revised their estimates and expect growth to stay positive.

U.S. economic data continues to be better than expected non-farm payrolls saw 187,000 new jobs created; this was 17,000 more than expected. Despite the increase the unemployment rate increased 0.3% to 3.8% as the participation rate rose 0.2% to 62.8%. Average hourly earnings for the month increased by 0.4%, which was 0.1% better than expected and saw the annual earnings growth rate remain at 4.4%. Inflation continues to trend in the right direction with headline CPI rising 0.2% in July. This was in line with expectations and saw CPI y/y come in at +3.2%, 0.1% lower than expected. Core CPI m/m also increased by 0.2%, which saw Core CPI y/y fall 0.1% to +4.7%. Preliminary GDP for Q2 rose 2.1% annualised, down 0.3% from Q1. The ISM manufacturing index increased by 0.4 of a point to 46.4, while the ISM services index was 1.2 points lower at 52.7. Retail sales increased by 0.7%, 0.3% better than expected.

Credit spreads were 10bps narrower on average over the month, with all sectors delivering positive returns. Credit continued to be the best performing sub index within the composite with utilities the best performing sector (+1.20%), this was followed by industrials (1.10%) and financials (0.87%). YTD total issuance across financials reached A\$92.1bn, which is A\$15.9bn more than at the same period last year, of that, major bank issuances made up A\$48bn.

Outlook

With the RBA messaging the cash rate is 'on hold' for the time bond yields are likely to tread water around current levels. The market continues to price out the likelihood of further rate increases in 2023. We think it is premature to call an end to the RBA hiking cycle given a still tight labour market and inflation pressures evident in key areas of the economy.

Wages growth has jumped to a higher level after years of stagnation. House prices have been rising recently boosted by the re-opened border and increased labour supply. The key external risk at the present time remains China. China has reported softer economic data over the past several months but made progressive policy announcements. The RBA's concerns regarding the outlook for Australia's major trading partner will not have eased.

Top 10 Issuers

Issuer	Weight %
AUSTRALIA (COMMONWEALTH OF)	52.3
NEW SOUTH WALES TREASURY CORPORATION	8.0
TREASURY CORPORATION OF VICTORIA	7.5
QUEENSLAND TREASURY CORPORATION	6.7
WESTERN AUSTRALIAN TREASURY CORPORATION	2.6
SOUTH AUSTRALIAN GOVERNMENT FINANCING AUTHORITY	1.8
INTERNATIONAL FINANCE CORP	1.3
EUROPEAN INVESTMENT BANK	1.2
LANDWIRTSCHAFTLICHE RENTENBANK	1.1
KFW	1.0

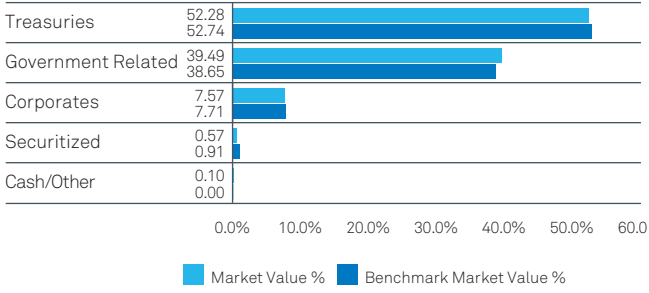
Risk Characteristics

	Fund	Benchmark	Difference
Modified Duration (Years)	5.12	5.11	0.00
Duration x spread	1.48	1.61	-0.12
Yield	4.19	4.22	-0.03
Average Coupon (%)	2.67	2.72	-0.05
Average Maturity (Years)	5.95	5.96	-0.01
Green Bonds	4.27	2.30	1.98
ESG Score	7.23	7.21	0.02

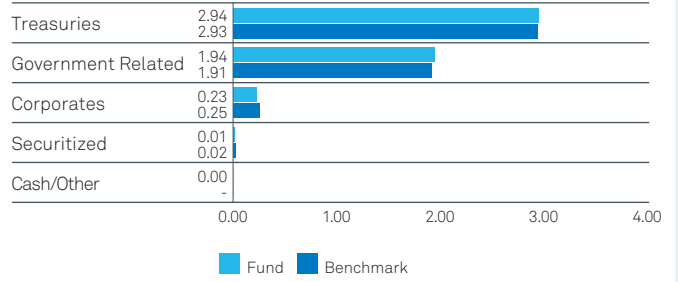
Top 10 Issuers held by ESG score

Issuer	ESG Score
INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT	10.0
INTERNATIONAL FINANCE CORP	10.0
KFW	10.0
MIRVAC GROUP FINANCE LTD	10.0
NORDIC INVESTMENT BANK	10.0
TRANSURBAN QUEENSLAND FINANCE PTY LTD	10.0
DEXUS FINANCE PTY LTD	9.8
CNH INDUSTRIAL CAPITAL AUSTRALIA PTY LTD	9.7
EUROFIMA	9.5
EUROPEAN INVESTMENT BANK	9.5

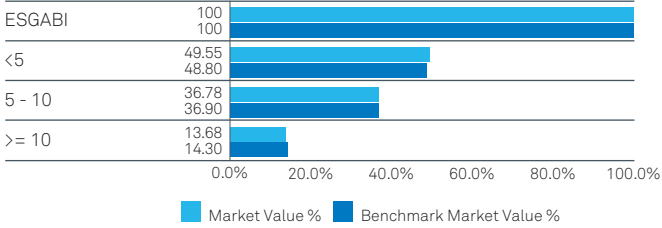
Sector Exposure



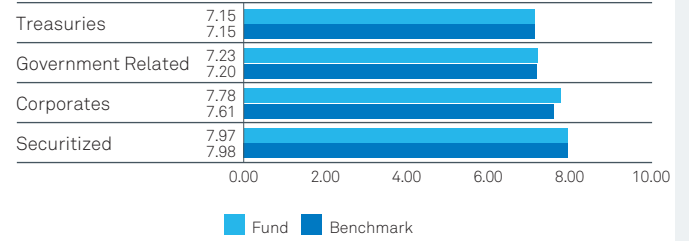
Contribution to Modified Duration



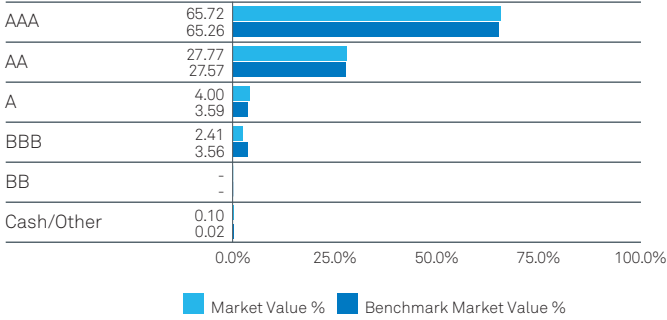
Maturity Exposure



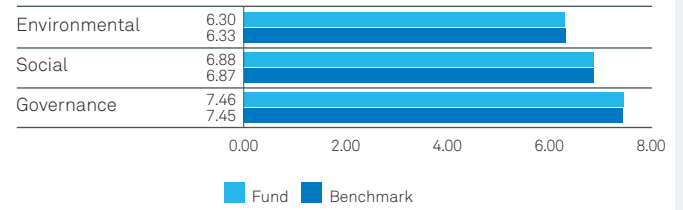
ESG Sector Score



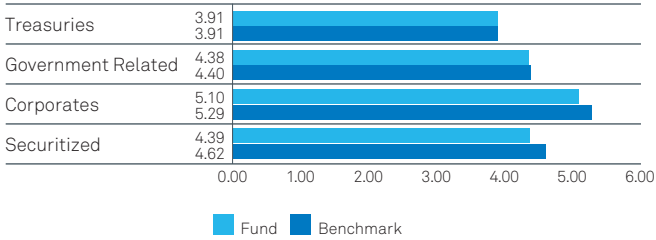
Quality Exposure



ESG Score Breakdown



Yield



About the Fund

Investment Objective

The Fund aims to match the performance of a customised Bloomberg Barclays MSCI Australian Socially Responsible (SRI) and ESG-weighted Index before fees.

Fund Strategy

The Fund excludes non-government securities associated with fossil fuels, alcohol, tobacco, gambling, adult entertainment, genetically modified organisms, military weapons, civilian firearms, nuclear power. The definitions for exclusions are based on the Bloomberg Barclays Index exclusion methodology.

The strategy aims to track the benchmark by closely matching the distribution of the benchmark's major risk and return factors. This is done using a methodology commonly referred to as stratified sampling, where the benchmark and the investment portfolio are broken down into "cells" of securities with similar risk and return factors. The major risk and return factors are interest-rate risk, sector risk and specific (individual security) risk. We select securities that match the overall characteristics of each cell in amounts consistent with the index weighting and modified duration of the cells they represent. By matching at the cell level, the overall risk and return characteristics of the portfolio will closely match those of the benchmark.

Should be considered by investors who ...

- ▶ Seek a broad exposure to Australian bonds.
- ▶ Seek a fund that screens for improved ESG outcomes.
- ▶ Seek a fund that uses a stratified-sampling approach so returns match as closely as possible those of the benchmark before fees.
- ▶ Have a long term investment horizon.

Fund Details

iShares ESG Australian Bond Index Fund (Class E)

APIR	BLK9562AU
Fund size	578 mil
Buy/Sell Spread	0.05%/0.05%
Tracking Error (3 years p.a.)	0.03%

iShares ESG Australian Bond Index Fund (Class D)

APIR	BLK2127AU
Management Fee (Class D Units)	0.20% p.a.

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